

A Methodology for the Implementation and Continuous Improvement of Social Responsibility (RS) and Financial Responsibility

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Abstract

This work sets out an innovative methodology that aims to facilitate the implementation and continuous improvement of Social Responsibility. It is a methodology that takes account of strategic-economic, social and environmental questions and allows measuring the impact of each of these aspects on the stakeholders and on each of the value areas. It can be extrapolated to all kinds of organisations regardless of their size and sector and admits scaleable models. A marked feature that sets it aside from other methodologies is that it eliminates subjectivity from the qualitative aspects and introduces an algorithm to quantify them.

Key words

Social Responsibility, Evaluation of Sustainability, Stakeholders, Stock Market Sustainability Indexes, Financial Services.

Sustainable Development and Social Responsibility

The concept of *sustainable development* had its origins in the alarming relationship that could be seen between human economic growth-related activity and its impact on the environment. The first internationally accepted definition of sustainable development, called *Our Common Future*, can be found in a document known as the Brundtland Report (United Nations, 1987), issued as a result of the work done by the United Nation's Commission on Environment and Development, set up during the 1983 United Nations Assembly, led by Dr Gro Harlem Brundtland. This concept of sustainable development is defined as follows:

"Development that meets the needs of the present without compromising the ability of future generations to meet their own needs"

This definition would become official in Principle 3 of the Rio Declaration (United Nations, 1992), thereby generating a framework of compatibility between economic growth and environmental issues and a long-term projection. Its content was subsequently expanded with social issues due to the evidence that economic growth is

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in many ways related to a lack of respect for human and labour rights and to corrupt systems.

At present, sustainable development is identified with economic growth accompanied by environmental and social measures, and seeks a balance in the evolution of the three dimensions. This foundation of sustainability also goes by the technical term of “*triple bottom line*”.

Social Responsibility in Organisations is the concept that attempts to address their concerns to integrate the three basic pillars of sustainable development into their strategy.

In the latest document regarding international consensus, standard ISO26000 published in November 2010 (ISO, 2010), Social Responsibility is defined as:

“Social Responsibility: an organisation’s responsibility in the face of the impacts that its decisions and activities have on society and the environment, through ethical and transparent behaviour which:

- a) Contributes to the sustainable development of society, including its health and well-being;
- b) Takes into account the expectations of the stakeholders;
- c) Complies with current legislation and is coherent with international regulations of behaviour and,
- d) Has such regulations integrated throughout the organisation and are put into practice in its relations”.

The relevance of the concept in enterprise

Of all the stakeholders in economic processes, enterprise forms the hub of all economic development-related activities.

The revolution in technology that has gone hand in hand with the development of the new information and communication technologies, together with the phenomenon of globalisation, sets the scene in which present-day business is conducted. Nowadays, economic organisation moves within a structure of networks of which not only big business is a part but which reaches out to the whole of the business fabric and other stakeholders participating in financial systems. Success or quite often survival in the markets is attained by those companies, big or small, that know how to address the demands of society and thereby gain an advantage over their competitors.

The concept of SR becomes extraordinarily relevant in this context. However, if it is to be properly integrated a perfect understanding needs to be had not only of SR itself but also of its outreach and strategic importance.

It is a widely accepted principle in economy and finance that companies must be managed in a way that creates the greatest possible value for the shareholder. A company’s main duty is to be as viable as possible for its owners and shareholders. This viability is mainly obtained through its making profits and increasing the value of its shares. The strategy aimed at achieving these objectives must bear in mind the internal

nature of the company as well as its surroundings. This objective is in no way opposed to the concept of SR.

Firstly, by including SR-related activities in its strategy, a company can encourage the development of essential competencies that will position the company as leader and which are at the root of competitiveness. Winning or losing a leadership battle over competencies can deeply influence a company's ability for growth and what differentiates it from the competition much more than the success or failure of a product. A company must be conceived not only as a portfolio of products or services but also as a portfolio of competencies. The conviction that the principles of SR are able to become competitive strategy tools that extend to all the stakeholders may be the basic impulse for companies to take on board the dynamics set by the stakeholders.

The starting point for analysing the company's stakeholders is the owners or shareholders. It must be borne in mind that with their surplus income over expenses, individuals have the choice to channel such surplus towards altruistic ends. If to the contrary, they decide to seek a return on this surplus and enter the stock market, they have every right to demand a top performance from the company in order to achieve their objectives. Increasingly, demands are being made that the actions required to reach these objectives should be part of an ethical framework, even if the real reason is simply speculation. That is, the stakeholders want profitability that makes a positive contribution to society without any negative effects on the environment and in line with market standards or regulations. When faced with ever more financial storms, cases of corruption and market instability, what is sought is a safe haven for savings in solid, ethical shares.

Institutional investors (organisations that channel the resources of small investors) are usually more concerned with short-term liquidity, while the majority or dominant shareholders look more to long-term viability. In both cases, SR has a significant role.

Coinciding with the development of the theory and practice of Social Responsibility, a broad debate is taking place on the compatibility of this responsibility with companies' goals. However, there is no denying the rising importance in the stock markets of the so-called sustainability indexes.

The Dow Jones Sustainability Index, DJSI, is the New York index for companies that meet certain sustainability requirements. It was created in 1998 by the Dow Jones Indexes, Stoxx Limited and SAM (Sustainable Asset Management) entities, entrusted with evaluating candidates by taking the sustainability criteria set by the index, and which are reviewed every three months. There are more than fifty of these criteria which are structured in line with the triple bottom line and vary according to the sector in which they operate. There are three indexes: the World Index (DJSI World), the European Index (DJSI Stoxx) and the North American Index (DJSI North America).

According to the 2011 report published by SAM group (SAM, 2011), 342 businesses from around the world form part of the index, with a presence in 30 countries and 57 activity sectors. Europe contributes with 172 companies, of which 97 are part of the Euro Zone and 20 of which are Spanish. Two of them, Repsol and Enagás are leaders in their sectors.

In response to the increasing demand for Social Responsibility indexes, the FTSE also came up with a set of indexes, the FTSE4Good (Financial Times, 2001), designed to identify and measure the profitability of companies where environmental sustainability, developing positive relations with the stakeholders and the protection of and support for universal human rights is part of their strategy (Collison, Cobb, Power and Stevenson, 2008; Martin-Curran and Moran, 2007).

Meeting the required standards and being a founder member of the FTSE4Good sends out a clear message of the company's commitment to Social Responsibility to employees, customers and shareholders.

It is interesting to underline the position gradually being taken up in questions of SR by the financial services sector. Proof of this is the appearance of initiatives like those described in the report written by ClearlySo for the City of London Corporation, City Bridge Trust, and the Big Lottery Fund, published in July 2011 (ClearlySo, 2011). In its conclusions it cites the fact that "social initiatives that fundamentally change a business proposition through the social impact generated are particularly interesting to investors".

Porter and Kramer had already shown the link between the generation of distinguishing capabilities in matters of corporate responsibility and the subsequent competitive edge that could be developed (Porter and Kramer, 2006). Their starting point was the observation of the efforts wasted by companies in communicating their performance in the issue and the lost opportunities being experienced by numerous companies as a result of failing to include SR in their strategy or failing to properly integrate it into the organisation. They also put forward a new way of looking at the relationship between business and society by questioning the methodology used by companies to reflect their progress in addressing the demands of society.

In major enterprise the incorporation of SR as a new way of management is becoming more and more extensive. But in Small and Medium Enterprises (SMEs), their strategic view regarding sustainability is still incipient, associating this concept with non-priority approaches when it comes to allocating resources and mainly considering it to be something that is only within reach of major enterprise. However, the SMEs are playing a vital role in job creation and world economic growth. In Spain, for example, over 95% of the industrial fabric is made up of businesses and companies with a turnover of less than 50 million euros and under 250 employees. In addition, the SMEs as a group create 70% of the jobs in our economy and generate 64% of domestic sales (Rodríguez-López 2011).. It is therefore essential for SMEs to understand how important it is for them to also be part of a sustainability framework. To achieve this, they need access to structured information regarding the new opportunities that can be afforded by SR criteria as well as to understand the demands that will be gradually imposed by the context of SMEs in respect of this issue.

A large part of organisations' top executives (particularly in major enterprise) consider SR to be a strategic matter, but not all take a systematic and continuous approach to its evaluation. However, all responsible management requires the results obtained to be measured and compared with the set goals. Evaluation and writing the relevant reports lets the consistency between organisational policy and practice be appreciated, thereby ensuring responsible behaviour in the application of company principles. On the other hand, standardising these reports makes this process easier as it

enables the stakeholders in the corporate activity and society as a whole to compare the documents published by the different organisations.

It is therefore priority to set up mechanisms to evaluate responsible behaviour that are based on global standards that let comparisons be made both internally and externally as well as generating procedures for the implementation and continuous improvement of measures within the framework of the triple bottom line.

At present, the most widely-accepted patterns internationally for structuring the content of SR evaluation stem to a large extent from the proposal set out by the United Nations Global Compact, an initiative on ethical commitment. Its purpose is for companies from all countries, as an integral part of their strategy and operations, to embrace ten principles of conduct and action in issues of Human Rights, Work, the Environment and the Fight against Corruption (United Nations, 2008).

To help companies put this into practice the Principles contained in the Global Compact, the Coalition for Environmentally Responsible Economies (CERES) in association with the UNEP (United Nations Environment Programme) created, the Global Reporting Initiative, GRI, in 1997, which was intended to improve the quality, rigour and usefulness of the reports or statements on sustainability (GRI, 1997). We have already cited ISO26000 as the most up-to-date and complete of all the international reference documents (ISO, 2010).

From a generic point of view that can be extrapolated to any kind of organisation and with a specific focus on a company of any size, SR must be inherent to the basic principles of the organisation and be extended to each of the activities undertaken and reach all the intervening or related stakeholders.

In sum, SR comprises the business practices as a whole that represent the ethical commitments established by companies with their stakeholders, seeking a balance among their three aspects: economic, environmental and social, that is to say, in accordance with the values that define a company's sustainability.

Building the SR framework

The approach to building a practical SR framework for organisations firstly requires generating a solid, ordered conceptual framework.

We have already cited the universal consensus that is being currently worked on: the triple bottom line. That is, the balanced development of organisations in three large areas of sustainability: economic, social and environmental.

Then, a catalogue of indicators should be immediately produced with a content that can be complied with and ensure this balanced growth.

Therefore, it is essential to establish evaluation methodologies and implement them.

Also, mechanisms and tools must be constructed that will allow this framework to be managed.

The IPSUM Project

All the foregoing gave rise to the IPSUM Project (Sanz-Mendiola and García-Beltrán, 2009), a result of the collaboration among a group of researchers at the Escuela Técnica Superior de Ingenieros Industriales of the Universidad Politécnica de Madrid (ETSII-UPM) and Renault Consulting², with the purpose of developing a methodology to:

1. Evaluate an organisation regarding its outreach in SR issues (sustainability) in:
 - a) The three basic areas of sustainability (ESR): strategic-economic, environmental and social.
 - b) Each of the stakeholders involved.
 - c) The different activities of the organisation's value chain.
2. The implementation and continuous improvement of ESR as part of the organisation's strategy.
3. The development of a software application for the methodology implementation and management (Sanz-Mendiola et al, 2009).

The IPSUM methodology is based on the framework set by the Global Compact Principles and the GRI Guide to Writing Sustainability Reports, and is absolutely consistent with them. It has been updated with the content of ISO26000, which is aimed at any kind of organisation, either public or private, profit or non-profit making, regardless of its size, sector or context in which it operates. ISO urges the organisation using its guide to recognise, above all, which fundamental issues and matters are the most important for its activity and begin by integrating social responsibility into these issues. This combination of general guidelines and specific recommendations is fully understandable given the nature of the standard. However, if we bear in mind the large number of organisations the guide is intended for, and that it has been prepared by 91 countries and 42 organisations with different interests and points of view, it is advisable to point out that it sometimes gives the impression of failing to define some issues in sufficient detail, particularly in contrast to some of its highly specific recommendations.

On the other hand, the IPSUM methodology considers a wide range of generally broader concepts than standard ISO 26000. Moreover, the structure of the IPSUM indicators is homogeneous in the detailed way it approaches content. Nevertheless, the transfer of the standard to the content of the IPSUM indicators catalogue has been analysed in the smallest detail using a meticulous systematic approach designed for the purpose.

² Renault Consulting: A consultant whose mission is to train and assess the companies forming the Renault-Nissan Alliance, as well as other organisations, to contribute to the improvement of their processes and results in the short medium and long term.

When setting out on a catalogue of consistent, practical and manageable indicators, IPSUM detected the need to clearly differentiate all those criteria that were directly quantifiable from those that were purely speculative.

A first step to success for the SR framework is an awareness of a substantial change in the concept of responsibility where the integration of merely qualitative aspects becomes an essential strategic element that acquires an enormous weight as part of the whole. This characteristic poses a dual problem for the evaluation of these criteria: the logical subjectivity associated with most of the criteria and their practical and reliable measurement.

To address all of this, IPSUM, establishes a dual catalogue of indicators, both quantitative and qualitative, with a content that is highly relevant for organisations. The indicators are grouped around three issues that take account of sustainability while seeking their balance.

The first observation to emerge from this process is the content that must be given to the set of economic issues in the context of SR. After a lengthy reflection, it was considered vital to introduce the concept of strategy into the terminology, finally adopting the term of Economic-Strategic to encompass all the indicators in this area. In this way, the different quantitative aspects that will be mainly associated with the economic ones can be differentiated from the qualitative ones that will mainly go with the strategic aspects.

Generally speaking, for the three aspects of SR (economic-strategic, social and environmental) the quantitative indicators are materialised through ratios constructed from accounting data that serve to support and confirm the qualitative indicators and follow the lines specified in the GRI.

As we have stated, the main difficulty lies in the catalogue of qualitative indicators and in solving the series of problems involved.

We will now describe the systematic procedure developed by IPSUM.

The qualitative issues of SR are associated with a finite set of indicators. In order to eliminate subjectivity from the measurement each qualitative indicator has been scaled on four levels of outreach. The description of each level has three degrees of development:

- a) Basic definition.
- b) An explanatory extension of the initial definition to help the company understand the specific outreach referred to by each level.
- c) A help note for the exclusive, specific use of a consultant or external certifier controlling the evaluation. It refers to the arguments or documentation that will let them verify the company's declaration of compliance with the said level.

Implicit in achieving the first level is that all the legal requirements related to the corresponding indicator have been met and that each higher level assumes compliance with the previous levels. Each indicator is allocated a weighting of between 1 and 4. The weighting allocated to each indicator has been set according to its importance within the outreach of sustainability

criteria. This initial weighting is open to change in line with the evolution of the parameters on which the evaluation is based. But to analyse a set of historical indicators the weightings must be kept the same so that the necessary comparisons can be made. The same weightings must also be kept, for identical reasons, when comparing companies.

A procedure for the relative quantification of these indicators has also been developed. Together with the internal structure that characterises them it provides accuracy in the evaluations and makes it easier to compare them by substantially improving the interpretation of the results.

In addition, with IPSUM, scaleable models can be built to which sustainability criteria can be progressively incorporated while sector definition is also accepted.

It also includes the following stakeholders:

- a) Shareholders
- b) Management
- c) Employees
- d) Suppliers
- e) Customers
- f) Competitors
- g) Banks
- h) Local public administrations
- i) General public administrations
- j) Other organisations
- k) Society

Each indicator in the catalogue has been linked to the stakeholder(s) that are most directly involved or affected by its implementation. By having this connection the methodology lets a relative evaluation be made of the outreach of sustainability (total or in each of its three aspects), for each of the different *stakeholders*.

IPSUM also links the diverse activities making up the company's value generation chain to the different indicators. The main activities of the value chain that are used as a reference in the IPSUM methodology are adjusted to those defined by Porter (Porter, 1996), and are outlined below:

- a) Primary or line activities (Inbound Logistics, Production Operations, Outbound Logistics, Marketing and Sales and Services)
- b) Backup or support activities (Procurement-Supplies, Technological Development, Human Resources Management and Firm Infrastructure).

Each indicator in the catalogue has been linked to the activities of the value chain where that indicator is most significant. This enables a relative evaluation of the outreach of sustainability to be carried out (total or in each of its three aspects) for each activity.

It links compliance with the different indicators with a catalogue of competitive advantages related to each of them.

It proposes a catalogue of good practices taken from a database of successful SR case studies, the result of a process that collected a wide range of initiatives carried out by companies. This is possible thanks to the policy of transparency followed by these companies that have already included SR in their strategy and which publish their ongoing projects in various media. By compiling information a wide collection of news, articles, reports, sustainability guidelines, yearbooks, etc., can be made available to which documents published in any communication media can be continuously added. Good practices are taken from those company case studies where it has been found that the sustainability indicators to which they have been linked have been properly managed.

By taking best practices data as a basis, IPSUM builds a catalogue of actions to be taken to ensure the organisation complies with each of the indicators and improves its outreach. These actions are the result of specific guidelines for implementing the indicators in a company so that it will attain the corresponding competitive advantages. Figures 2 and 3 show a schematic layout of how the different elements of the developed methodology are related.

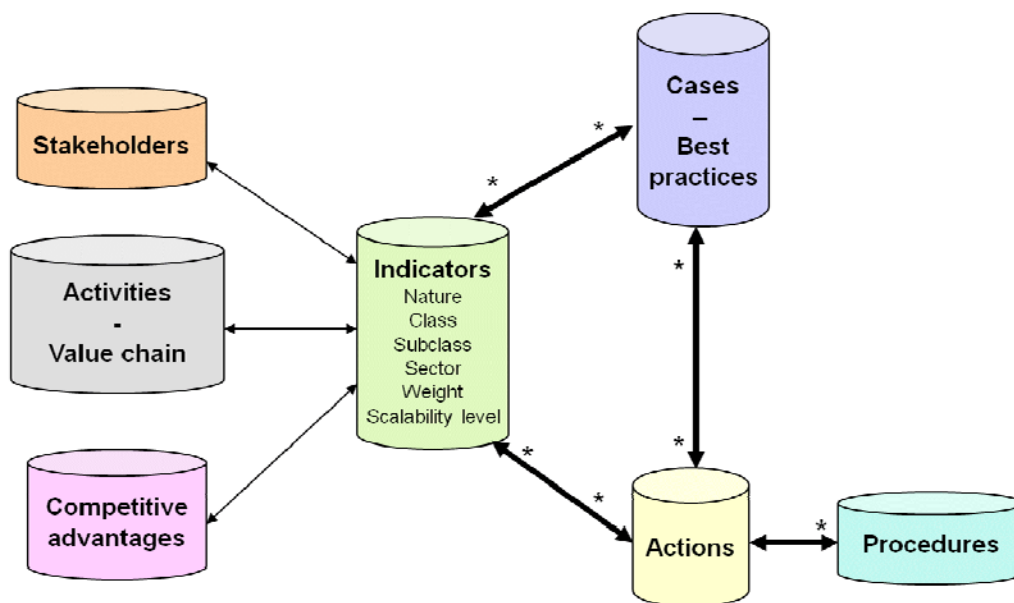


Figure 2. Diagram showing how the different elements of the IPSUM methodology are related [Sanz-Mendiola et al, 2009]

Indicator (4 levels and weighting factor)	
Associated Stakeholder in the first instance	Shareholders
	Management
	Employees
	Suppliers
	Customers
	Competitors

		Banks
		Local Public Administrations
		General Public Administrations
		Other organisations
		Society
Competitive advantages		
Value chain activities	Support	Firm Infrastructure
		Human Resources Management
		Technology
		Supplies – Procurement
	Primary or line	Inbound Logistics
		Operations
		Outbound Logistics
		Marketing and Sales
		Service
Best Practices Database		
Catalogue of Proposed Actions		
Procedures Database		

Figure 3: Structure of an indicator and its connections in IPSUM Methodology
[Sanz-Mendiola et al, 2009]

The procedure is completed by inserting the procedures for transmitting the results and for control and continuous improvement, through automatic report generation.

Finally, IPSUM has developed an ad hoc tool based on the new ICTs, which facilitates and manages the developed methodology and which has been registered in the Intellectual Property Register since May 2011. The application basically consists in implementing a graphic interface through which a diagnostic report on the company's SR can be generated. The developed application uses a Web service infrastructure and a client-server model to carry out all the functionalities. Among the many advantages of this model, we can highlight:

- The use of this service can be made available to all the stakeholders involved in the project due to the use of standards such as Web service. Another important peculiarity of this architecture is the ease with which the applications created using these technologies can be distributed from the points of view of universal access and the property licences of the software.
- The flexibility of time and space afforded when it comes to completing the evaluation questionnaires. There is a considerable reduction for the organisations in the costs and human resources involved in the process.
- The continuous improvement of the tool: the ease with which the system can be updated due to the client-server architecture. The direct contact between

supplier and user means that any improvement or change can be immediately communicated to those involved.

- d) The capacity for automatic information management regarding data gathering as well as the generation of reports (self-diagnosis, customisation to match company type, graphic possibilities...), for companies as well as potential certifiers.

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